

Message Text

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SUBJ: RISING PRICES CAUSING INCREASED CONCERN

REF: SEOUL 4959

1. FOLLOWING THE ANNOUNCEMENT OF HIGHER BANK INTEREST RATES (SEE REFTEL), THE GOVERNMENT SUBSEQUENTLY ANNOUNCED ADJUSTMENTS IN TRANSPORTATION CHARGES AND GOVERNMENT GRAIN SELLING PRICES EFFECTIVE 14 JUNE. THESE INCLUDED A 25 PERCENT INCREASE IN INTRA-CITY BUS FARES AND TAXI CHARGES, A 30 PERCENT INCREASE IN INTERCITY BUS AND DOMESTIC AIR TRAVEL AND A 19.5 PERCENT RISE IN RAILWAY PASSENGER FARES. RETAIL RICE SELLING PRICES WERE INCREASED BY 13.6 PERCENT, BARLEY BY 9.9 PERCENT AND INSTANT NOODLES 11 PERCENT. AT THE SAME TIME THE MINISTRY OF AGRICULTURE PLACED A MAXIMUM PRICE OF 30,000 WON PER 80KG ON COMMERCIAL RICE. (IT HAS BEEN SELLING UP TO 40,000 WON AT LOCAL MARKETS COMPARED TO 27,000 WON LAST JULY.) THESE ADJUSTMENTS ARE ESTIMATED TO INCREASE WHOLESALE PRICES BY 0.3 PERCENT AND CONSUMER PRICES BY 1.7 PERCENT.

2. WHILE THE HIKE IN INTEREST RATES HAS BEEN GREETED WITH CRIES OF ANGUISH FROM BUSINESS CIRCLES, THE NEW PRICE
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INCREASES HAVE BEEN RECEIVED WITH DISMAY BY THE PUBLIC, PRESS AND OPPOSITION POLITICAL ELEMENTS. AFTER A SHORT-LIVED RALLY ON TUESDAY, STOCK MARKET PRICES HAVE RETREATED ON A BORAD FRONT EXCEPT FOR CONSTRUCTION-RELATED ISSUES. BLACK MARKET PRICES OF US DOLLARS REPORTEDLY JUMPED SOME 500 WON TO 53,000 WON FOR A HUNDRED DOLLARS. (THE SELLING RATE WAS 52,000 WON ON JUNE 1 AND HAS FLUCTUATED

BETWEEN 51 AND 52,000 WON FOR MOST OF THE YEAR.) CURB MARKET INTEREST RATES INCREASED ABOUT TWO PERCENTAGE POINTS AND NOW STAND AT BETWEEN 7-8 PERCENT PER MONTH.

3. DPM AND MINISTER OF ECONOMIC PLANNING NAM DUCK WOO ANNOUNCED THAT THE GOVERNMENT WAS ESTABLISHING A \$200 MILLION FUND TO IMPORT AND STOCKPILE NECESSITIES. STORAGE FACILITIES WILL BE EXPANDED FOR A THREE-MONTH BUFFER STOCK OF RICE, BEEF, FISH PRODUCTS AND OTHER DAILY NECESSITIES. HE NOTED THE GOVERNMENT WOULD SEEK TO SAVE 266,000 MILLION WON BY REDUCING GOVERNMENT EXPENDITURES. AT THE SAME TIME THE GOVERNMENT WOULD INCREASE ITS EXPENDITURES FOR EDUCATIONAL PROGRAMS AND INCREASE THE NUMBER OF VOCATIONAL TRAINING CENTERS BY FOUR THIS YEAR AND SIX NEXT YEAR TO MEET INCREASING DEMAND FOR SKILLED LABOR. (AT THE END OF MARCH THE UNEMPLOYMENT RATIO HAD DECLINED TO 3.6 PERCENT OF THE "ECONOMICALLY ACTIVE POPULATION" AS A RESULT OF A 35 PERCENT INCREASE IN CONSTRUCTION EMPLOYMENT AND A 10 PERCENT INCREASE IN MANUFACTURING.)

4. THE DPM SUBSEQUENTLY DISCUSSED THE ECONOMIC SITUATION BEFORE A SPECIALLY CONVENED SESSION OF THE ECONOMIC-SCIENCE COMMITTEE OF THE NATIONAL ASSEMBLY WHERE THE OPPOSITION NDP REVIEWED ITS DEMANDS THAT ALL THE ECONOMIC MINISTER RESIGN AS A RESULT OF "THEIR POOR ECONOMIC PERFORMANCE". DURING THE SESSION NAM REVEALED THE GOVERN-

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MENT WAS CONSIDERING LEVYING INCREASED TAXES ON RISING LAND VALUES AND LIMITING THE SIZE OF LOTS WHICH COULD BE PRIVATELY OWNED. NAM ALSO STATED THE GOVERNMENT WAS PLANNING TO ADJUST TARIFF RATES ON LIBERALIZED IMPORTS TO INCREASE THE INFLOW OF NEEDED GOODS.

5. COMMENT: RISING PRICES ARE BECOMING AN INCREASING CONCERN FOR THE GOVERNMENT (AS WELL AS THE CONSUMER). IN A CONVERSATION WITH AN EMBOFF THE ASSISTANT MINISTER FOR PLANNING, EPB NOTED THAT THREE AREAS ARE CONTRIBUTING TO PRICE INCREASES: FOOD, HOUSING AND EDUCATION. HE POINTED TO THE DEFICIT IN THE GRAIN MANAGEMENT FUND AS WELL AS THE GOVERNMENT'S DESIRE NOT TO DEPRESS THE PRICE OF DOMESTIC BEEF BY PASSING ON THE LOWER IMPORT PRICES TO THE CONSUMER AS EXAMPLES OF GOVERNMENT POLICIES CONTRIBUTING TO THE PROBLEM. MOREOVER, WAGES TO DATE IN 1978 HAVE RISEN AN AVERAGE OF THIRTY PERCENT WITH THOSE FOR CONSTRUCTION WORKERS UP BETWEEN 40 AND 50 PERCENT. (ACCORDING TO A RECENT SURVEY BY THE CONSTRUCTION ASSOCIATION, WAGES OF CARPENTERS HAVE RISEN BY 50 PERCENT TO 5,130 WON FOR AN EIGHT-HOUR DAY WITH WAGES FOR VARIOUS CONSTRUCTION POSITIONS NOW BETWEEN 4,500 AND 5,800 WON A DAY.)

6. AFTER MONEY SUPPLY GROWTH OF 31 AND 41 PERCENT IN 1976 AND 1977 RESPECTIVELY, THE PRESENT DOMESTIC BOOM AND CONCOMITANT PRESSURES ON PRICES SHOULD BE OF LITTLE SURPRISE TO ANYONE. WITH THE INCREASED LIQUIDITY DEMAND IS PRESSING ON SUPPLY FROM ALL SOURCES; THE SPRING DROUGHT WAS ALSO A CONTRIBUTING FACTOR. THE THREE AREAS POINTED TO BY THE ASSISTANT MINISTER ARE THOSE OF PRIMARY INTEREST TO THE KOREAN CONSUMER: IMPROVING HIS DIET, BUYING A HOME AND EDUCATING HIS CHILDREN. AS PROSPERITY BECOMES MORE WIDESPREAD THESE PRESSURES ARE BOUND TO INCREASE. WHILE REDUCTION OF MONEY SUPPLY GROWTH WILL HELP ALLEVIATE SOME OF THE PRESENT PRESSURES, MORE AND MORE ATTENTION WILL HAVE TO BE GIVEN TO INCREASING LIMITED OFFICIAL USE

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DOMESTIC SUPPLY. MEASURES TO DATE SHOW THAT THE GOVERNMENT ACKNOWLEDGES THE PROBLEM, ALTHOUGH BELATEDLY.

7. THE EMBASSY'S UNOFFICIAL SEOUL DAILY NECESSITY PRICE INDEX (36 FOOD AND 17 NON-FOOD ITEMS) SHOWS A 9.2 PERCENT JUMP FROM MID-MAY AND A 40 PERCENT GAIN SINCE DECEMBER. WHILE NON-SEASONALLY ADJUSTED IT PROBABLY GIVES A MORE ACCURATE PICTURE OF WHAT THE AVERAGE CONSUMER FACES THAN THE OFFICIAL INDEX. IN LIGHT OF PRESENT TRENDS, WE NOW BELIEVE THE REAL RATE OF INFLATION THIS YEAR WILL BE AROUND 20 PERCENT, ALTHOUGH GOVERNMENT INDEXES MAY SHOW ONLY A 15 PERCENT GAIN.
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